

**CITY OF TORRANCE**  
**DEFERRED COMPENSATION PLAN COMMITTEE**  
MARCH 1, 2011 MEETING MINUTES

**Members Present:** Ms. Dana Cortez – City Treasurer  
Ms. Elaine Winer – HR Director  
Mr. Eric Tsao – Finance Director  
Mr. John Fellows – City Attorney  
Ms. Mary Giordano – Assist. City Manager

**Guests:** Ms. Usha Archer – Great-West Retirement Services  
Ms. Carol Say – Great-West Retirement Services

**Committee Consultants:** Mr. John Campbell and Ms. Rachel Fequiere - Benefit Funding Services Group  
("BFSG")

**CALL TO ORDER**

A special meeting of the Deferred Compensation Committee (the "Committee") was called to order by Dana Cortez on March 1, 2011 at 1:00 pm. The meeting was intended to review the fourth quarter 2010 City of Torrance deferred compensation plans (the "Plans") performance report prepared by BFSG as well as items noted on the meeting agenda.

**INVESTMENT MEETING**

**I. APPROVAL OF DECEMBER 15, 2010 MEETING MINUTES**

A motion was made to approve the minutes. The motion was seconded and unanimously voted as approved.

**II. RETIREMENT PLAN QUARTERLY INVESTMENT REVIEW**

The Committee reviewed the BFSG Retirement Plan Quarterly Investment Review, which was distributed at the meeting. Mr. Campbell presented an overview of the markets as well as an analysis of the funds offered in the Plans. Seven funds in the 457 Plan A and 401(a) Deferred Compensation Plans continue to rank as "outperform" through the quarter ending 12/31/10; four rank as "perform;" and Artisan International continues to rank as "underperform."

Artisan International was noted as having a considerable amount of emerging markets exposure; however, the fund manager tends to purchase larger cap stocks than the peer group. As such, the fund experienced some lagging performance as smaller cap stocks rallied during 2010.

Other noteworthy funds for the quarter included Dodge & Cox Stock, which had an overweighting in financial stocks, causing it to lag its peers on a 3 and 5-year basis; Growth Fund of America, which continues to struggle on a short-term basis due to its overweighting in cash, financials, and international stocks, but remains in the top 20<sup>th</sup> percentile of large cap growth funds over a 10-year period; and Columbia Small Cap Value II, which continues to significantly underperform on a 3-year basis due to overweighting the financial sector.

The customized Lifestyle funds were all noted as performing well against their benchmarks. Their allocations are as follows: The Conservative fund consists of 40% equities / 60% cash and bonds; the Moderate fund maintains 60% equities / 40% cash and bonds, and the Aggressive fund maintains 80% equities / 20% cash and bonds. Mr. Campbell asked Ms. Archer to research the availability of expanding from just three Lifestyle funds to a more diverse offering that would encompass both age and risk tolerance. Ms. Archer will work with Mr. Campbell and Great West to provide more information regarding available options.

Some minor overlap was noted between the Growth Fund of America and Fundamental Investors funds. The amount of overlap is not uncommon based on these types of funds, and as such is not concerning.

Plan level returns demonstrate outperformance against the passive and active benchmarks on a 3-month, one, 3, and 5-year basis. The funds in the Plans, as weighted, take slightly more risk, as measured by 3-year standard deviation, and have a more competitive expense ratio (at 59 basis points versus 76 basis points) than the category average. The Plans' average and Plan-weighted Investment Policy Statement quantitative ranking is 22 and 19, respectively. Both are considered "outperform."

Mr. Campbell reviewed the performance of the 457 Plan B (part-time plan). Noteworthy funds in the part-time Plan for the quarter ending 12/31/2010 include the Janus Balanced fund, which took a more conservative position resulting in some lagging performance when the market rallied in 2010; Davis NY Venture, which over-weighted financials, international, and the energy sector (with an emphasis in natural gas), causing its performance to lag; American Century Ultra, which underperformed on a 3, 5, and 10-year basis; Maxim Janus Large Cap, which had some performance lag due to buying larger cap stocks than its peers; and Oppenheimer Capital Appreciation, which remains on the Watch List and continues to lag its benchmarks.

The part-time Plan has an average quantitative analysis ranking of 39, which is considered "perform." As weighted, the overall ranking is 19, which is considered "outperform."

### **III. DISCUSSION ITEMS**

**Investment Policy Statement:** Ms. Fequiere distributed an updated Investment Policy Statement for the Committee's review/discussion. She noted that the updates were made as a result of Mr. Fellow's review. After discussion, it was determined that other minor edits were required to further clarify some of the provisions in the Statement. Ms. Fequiere will make the edits as requested. As edited, the Investment Policy Statement was approved by the Committee.

**Part-Time Plan Considerations:** The Committee discussed being removed from the Great West bundled Future Funds II product that automatically makes adjustments to the part-time Plan fund line-up if the City does not otherwise object within a specified period of time. Rather, the Committee would use their prudent process in the selection and de-selection of options available in the Plan. Ms. Archer committed to having the Service Agreement amended such that all fund changes going forward would not be made as a negative election but rather as a proactive election at the request of the City. Once implemented, Mr. Campbell proposes some changes to the part-time Plan fund line-up, specifically: the Growth Fund of America R3 share class be reduced to the Growth Fund of America R4 share class, if possible; the possible elimination of the Oppenheimer Capital Appreciation fund from the line-up due to its on-going lagging performance; the possible elimination of the Oppenheimer Global fund from the line-up as it is not a pure international fund; and possibly using the custom Lifestyle funds available in the larger Plan in lieu of the Maxim Lifestyle funds. BFGS will prepare a fund search for the Committee's review and consideration at the next meeting.

**Default Fund:** The Committee discussed the possibility of using either the customized Lifestyle funds or the Great West Managed Accounts as opposed to the stable value fund as the Plans' default option. A discussion ensued regarding Qualified Default Investment Alternatives ("QDIA") rules and the provisions of ERISA 404(c), which can be considered for guidance when the CA Constitution is not clear on a retirement plan subject. It was noted that while rules for a QDIA specifically preclude stable value funds from being used as a QDIA, a stable value fund may be used if deemed prudent based on the demographic population. The Committee asked that Great West bring an analysis demonstrating the currently defaulted population, including information such as age and tenure. The default fund considerations will be revisited at the next Committee meeting.

#### **Administrative Meeting**

### **IV. GREAT WEST REPORTS**

Ms. Archer reviewed the Great West Plan Review, which was distributed at the meeting. Her presentation included a review of asset growth, asset allocation, average account balance, contribution history, and average number of investment options being utilized by Plan participants. The Committee asked that some of the asset allocation and demographic information be included in the employee newsletter as a "Did You

Know..." item. Ms. Archer committed to providing requested slides to the City for inclusion in the Newsletter.

Ms. Say reported on fourth quarter employee communication activity. She noted that a total of 221 attendees participated in either the New Employee Orientation; Group Education Seminar; or individual counseling sessions via phone or in-person.

**V. INFORMATIONAL ITEMS**

Legislative Updates – New Fee Disclosure Rules: Ms. Archer reviewed some of the more salient provisions of the new participant disclosure rules, noting that many of the requirements are already in place at Great West. Updates continue to be made to ensure that disclosures are complete per the DOL suggested format.

**VI. DISCUSSION ITEMS**

Roth 457(b): Ms. Archer provided some background on the provisions of Roth 457(b), including the availability of in-plan Roth conversions. She noted that a money type would need to be added to the Plans should the Committee wish to implement Roth 457(b), and that Great West is equipped to support such a request. The Committee asked that more information be provided at the next meeting for their consideration.

Revenue Sharing Account: Ms. Usher reported that the amount available in the Plans' revenue sharing account is approximately \$512,000. The Committee discussed ways in which the amount could be used. Though currently competitively priced, Mr. Campbell proposed the possibility of lowering the Plans' expense ratio even further by using the revenues that have accumulated in the Plan's revenue sharing account to augment potential lost revenues to Great West, which could result from using less expensive fund share classes. The account may also be used to provide employee seminars and education. After discussion, the Committee asked that BFSG work with Great West to prepare an analysis demonstrating the impact of lower expense share classes on revenue sharing. Additionally, Ms. Archer will prepare a budget showing potential communication initiative costs for the Committee's consideration.

**VII. ADJOURNMENT**

The Deferred Compensation Committee meeting adjourned at 2:50 pm.